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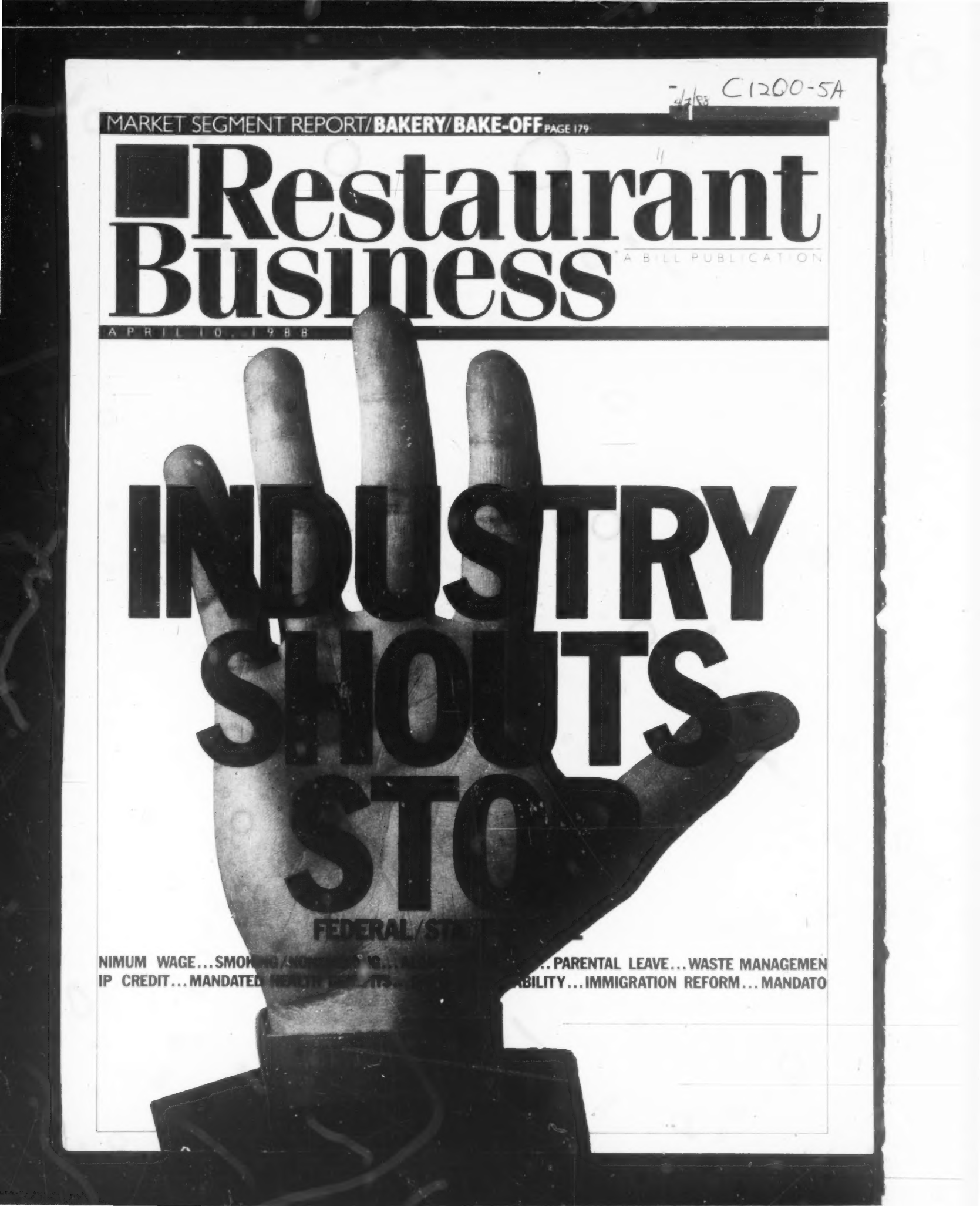
MARKET SEGMENT REPORT/**BAKERY/BAKE-OFF** PAGE 179

Restaurant Business

A BILL PUBLICATION

APRIL 10, 1988



INDUSTRY SHOUTS STOP

FEDERAL/STATE

NIMUM WAGE... SMOK... PARENTAL LEAVE... WASTE MANAGEMEN
IP CREDIT... MANDATED ... BILITY... IMMIGRATION REFORM... MANDATO

BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Howard Riell

CONSUMER ATTITUDES ON EACH

	% Agree	% Disagree
"I usually leave a tip no matter what."	64	22
"I would like it better if I was not expected to tip at restaurants."	34	45

SOURCE: National Restaurant Association Gallup Survey

Tipping Versus A Service Charge

Tipping became what pundits like to call a "flashing light" for restaurant operators when the new Social Security (FICA) tax on reported tip income took effect January 1. It means that operators must now pay tax on income that came from someone else—the diners (although operators are still prohibited from using that same tip income to meet minimum wage requirements). An alternative to the vagaries of trying to budget labor costs that include tips is the flat service charge. But, according to the National Restaurant Association's Gallup survey, service charges would not ingratiate most customers, who've been taught to tip.

WHO SHOULD PAY THE WAITER?

	% Agree	% Disagree
"Paying the waiter is the responsibility of the restaurateur, not the customer."	62	18
"Waiters should receive a guaranteed wage instead of tips."	59	23
"Under a service-charge system, waiters won't provide as good service as they do under a tipping system."	46	28

SOURCE: National Restaurant Association Gallup Survey

Who Gets to Give Gratuities?

Not only did the NRA/Gallup survey show that diners like tipping—each according to his own, personal formula—but they don't understand service charges. Forty-one percent equated service charges in restaurants with paying labor charges for appliance repairs. And 40% said a service-charge system was unfair to waiters; only 30% said it was fair. More important, almost half of the consumers questioned believed service would suffer under a service-charge system. Forty-five percent felt that a 15% to 18% service charge is "reasonable." Older diners seemed to prefer situations in which they were not expected to leave tips.

OPINIONS VARY BY CONCEPT

	% Like Service Charge	% Dislike Service Charge
Counter service at a coffee shop	12	76
Full-service moderately-priced, family-style restaurant	22	59
Full-service, expensive restaurant	48	34

SOURCE: National Restaurant Association Gallup Survey

Where Service Charges Are Acceptable

The bottom line: The more personal contact there is between customer and server, the less a diner is likely to want a service charge. So, restaurateurs considering replacing tips with a service charge may want to first judge how consumers will perceive their particular establishment based on its type of operation and clientele. They must also take the trouble to educate diners as to the true nature of a service charge, and assuage their fears that service will suffer as a result, and that they are somehow short-changing waiters by not placing some cash under the salt shaker when they leave.

CHARTS DESIGNED BY JOAN FANG

RESTAURANT BUSINESS

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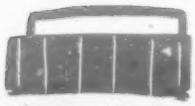

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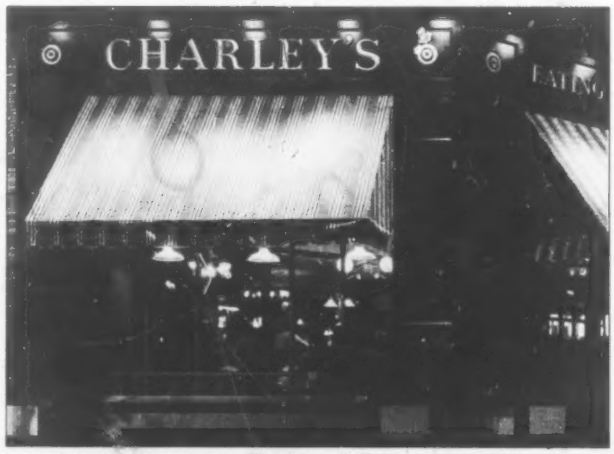

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CONTRIBUTING EDITORS
Carol Casper Sarah Person
Jacque White Kochak James Peters
Dolores A. Long Elizabeth Rhein
Howard Schlossberg

PRESIDENT/GROUP PUBLISHER Jeffrey P. Berlind

Editorial Office
633 Third Ave., New York, NY 10017
(212) 986-4800

Midwestern Office
307 N. Michigan Ave., Chicago, IL 60601
312-782-1266

Western Office
830 Menlo Ave., Menlo Park, CA 94025
415-327-2655

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OPENING THE WINDOWS OF OPPORTUNITY

A unit count survey helps operators screen markets for expansion strategies.

BY JAMES SCARPA

Detailed marketing studies are a key weapon in the battle for restaurant growth. To expand successfully, restaurant companies have to know where they stand in current and prospective markets. They must know the location and numbers of rival stores. Chains frequently find the answers to these questions from specialists in the generation and analysis of industry information. One such company is the Evanston, IL-based Restaurant Consulting Group Inc., producer of the RE-COUNT report.

RE-COUNT (Restaurant Count by Market) delineates the presence and count of chain and independent restaurant units for every market in the contiguous 48 states. It tracks more than 3,400 chains with over 138,000 units and more than 216,000 independents. It provides unit counts for the entire industry, broken down into census regions, states, ADIs, counties, and zip codes. It gives the number of units in 47 categories, classified by type of food and/or operational format.

OPEN POCKETS. "As an industry, we're pretty mature," says Bob Siegel, president of Restaurant Consulting Group. "The trick is to find those pockets that aren't saturated."

Unit counts can assist in that task. They can be used to assess the success potential of a new concept or food in an area. A survey of unit counts helps an operator screen a market for expansion and formulate strategy.

It may pay to introduce to new areas menu items that have proven popular elsewhere, or to expand the availability of items in use. Pioneering an unfamiliar concept or food in a market requires a large investment of time and effort. But the advantages of entering the market early are considerable: less competitive pressure and the potential to define the standards of the market.

TREND INDICATORS. Looked at another way, unit counts are indicative of restaurant industry trends. They can show the growth of market segments and the dynamics of competing chains and independents. This article discusses the industry's overall growth in 1987 and glances at the competitive trends in six market segments: pizza, ethnic menu, sandwich, hamburger, chicken, and family restaurants.

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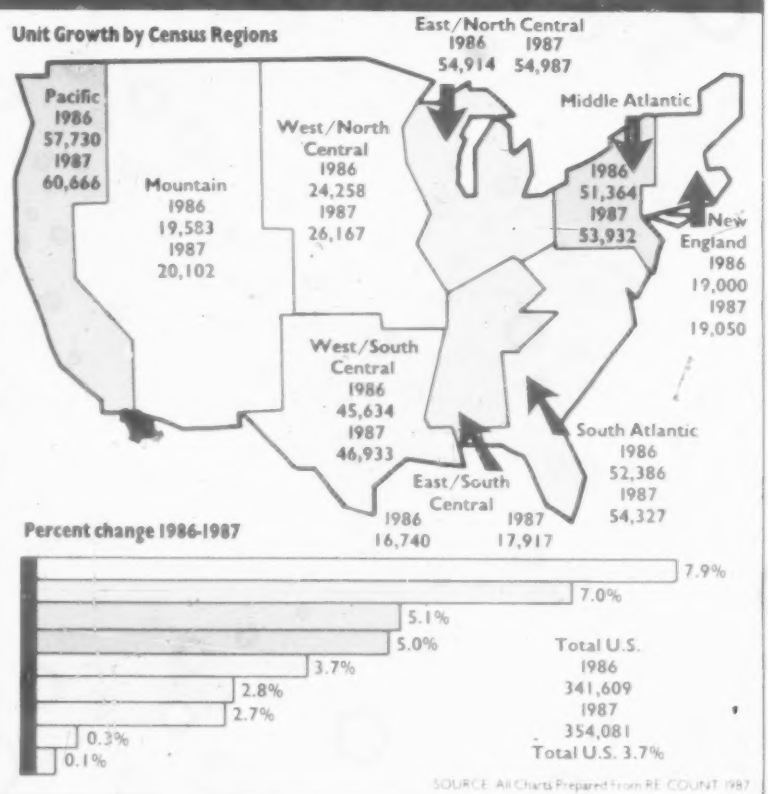
HEARTLAND IS CENTER OF ACTIVITY



SOURCE: All Charts Prepared From RE-COUNT 1987

RE-COUNT unit counts clearly show what operators in the field know quite well—competition is increasing. The total restaurant count of 354,081 units in 1987 represents an increase of 3.7% over the previous year. However, this marks a continued slowdown of the rate of expansion from the two prior years, which had 5% and 6% growth, respectively.

But, the increase is indicative of a continuing trend of oversupply. As Siegel puts it, "The incremental supply of restaurants is increasing faster than incremental demand for restaurants." In other words, the number of restaurants has risen faster than the number of households. In fact, the average number of households per restaurant has declined from 256 to 252, increasing the competition.

Chains matched their 1986 growth rate of 5%. Expansion of independents slowed considerably over the year, with a drop from 5% to 3%.

Units are classified by type of food and/or operation.

Unit counts indicate the dynamics occurring within market segments, too. Pizza restaurants and ethnic restaurants were the prime catalysts in the industry's 1987 growth, Siegel says. Combined, they accounted for more than one-half of all new restaurants this year.

The overall pizza market segment experienced an 8% increase in 1987 over 1986, largely due to the continuing boom in delivery and carry-out pizza. Within that segment, three major chains, Pizza Hut, Domino's, and Little Caesars, accounted for almost half of pizza growth, while independents claimed most of the balance.

The three major divisions of the ethnic segment continue to be hot. Oriental, Italian, and Mexican restaurants grew considerably faster than the industry average. Mexican restaurants grew by more than 7.2% in 1987, up from their 4% growth rate in 1986. Oriental restaurants grew by 7.9%, more

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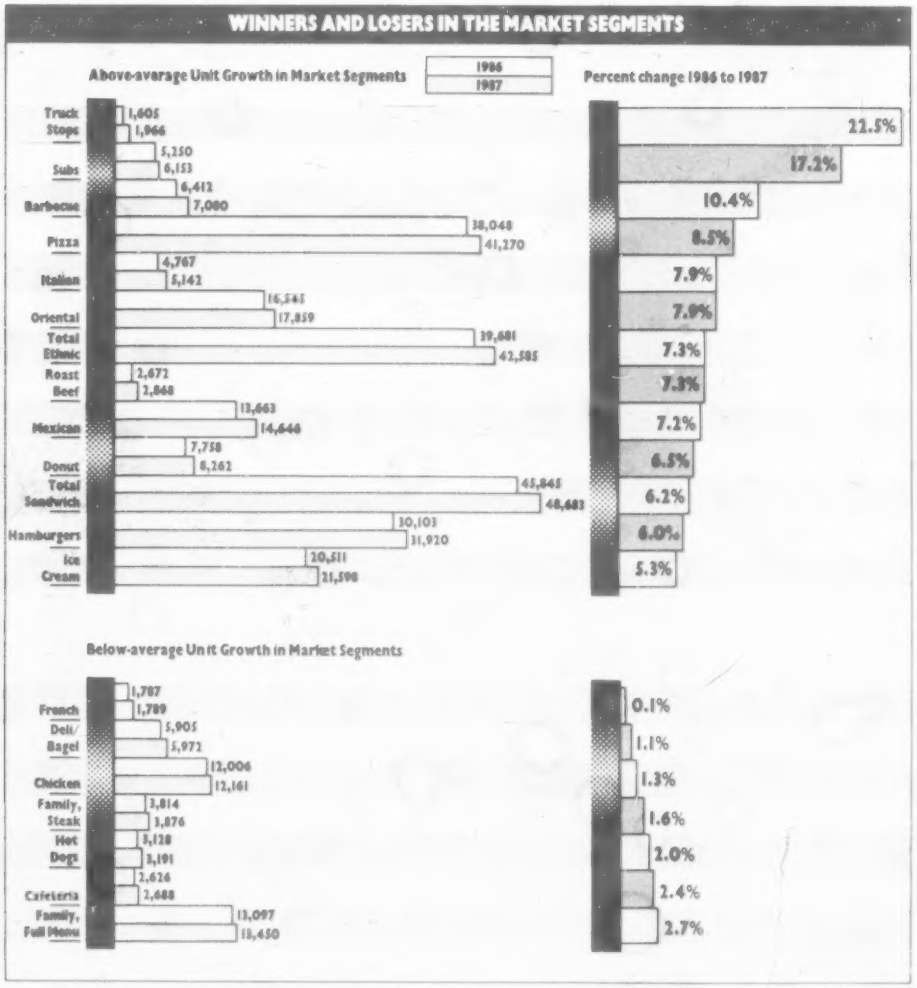


For more information on Treasure Isle circle number 285 ➞

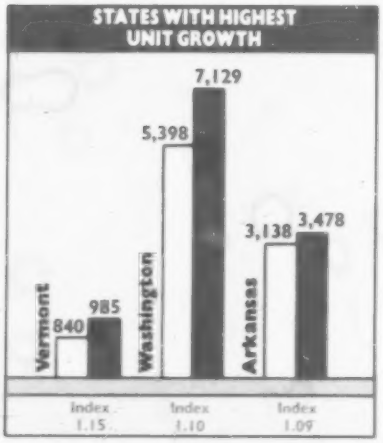
RE-COUNT tracks more than 3,400 chains and more than 216,000 independents.

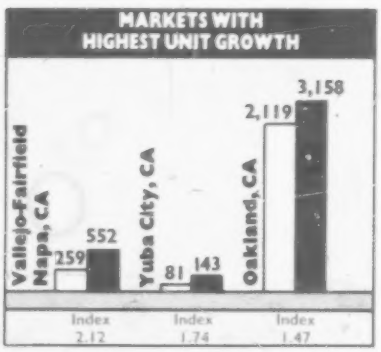
UNITED STATES – 1987

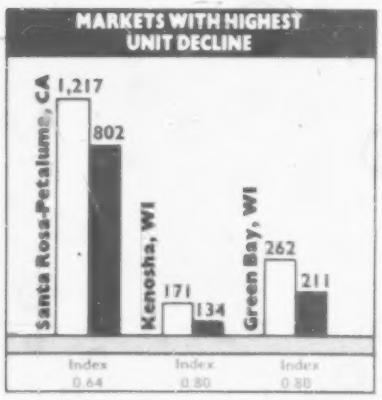
MENU CATEGORY	Total US	New England	Middle Atlantic	E/N Central	W/N Central	South Atlantic	E/S Central	W/S Central	Mountain	Pacific
Total Restaurants	354081	19050	53932	54987	26167	54327	17917	46933	20102	60666
Sandwich Menu	48683	1970	5225	8237	3559	8944	3203	6912	2929	7704
Hamburger	31920	965	2706	5389	2794	5349	2451	4994	2002	5270
Roast Beef	2868	109	529	656	160	638	175	220	186	195
Hot Dogs	3191	81	339	953	86	419	164	425	148	576
Subs	6153	551	1093	805	228	1553	149	598	362	814
Other Sandwich Menu	4551	264	558	434	291	985	264	675	231	849
Delicatessen/Bagel	5972	339	1343	639	263	926	241	447	264	1510
Chicken	12161	231	967	1906	715	2609	1018	2424	582	1709
Pizza	41270	2704	8275	8330	3148	5800	1755	3605	2188	5465
Fish Seafood	9970	607	1134	1041	344	2644	763	1544	346	1547
Steak Menu	7997	284	892	1171	723	1726	636	1044	531	990
Family Steak	3876	91	326	627	316	1081	407	421	206	401
Upscale Steak	832	29	76	82	52	155	39	186	65	148
Unclassified Steak	3289	164	490	462	355	490	190	437	260	441
Ethnic Menu	42585	1601	6355	4945	2342	5172	978	5827	3003	12362
Mexican	14646	164	562	1478	994	1181	377	3308	1510	5072
Oriental	17859	862	3712	1990	932	2281	431	1693	903	5055
Italian	5142	328	1233	718	201	907	96	356	307	996
French	1789	109	264	155	53	324	20	145	109	610
German	518	15	78	111	37	68	15	41	33	120
Spanish	174	4	42	12	2	34	—	29	14	37
Greek	848	41	137	239	61	155	14	46	53	102
Indian	302	20	99	16	9	35	2	34	7	80
Soul Food	122	1	11	23	6	25	5	15	4	32
Other Ethnic Menu	1185	57	217	203	47	162	18	160	63	258
Barbecue	7080	52	239	638	391	1668	871	2233	224	764
Full Menu	15773	939	1912	3357	1211	2603	977	1387	900	2487
Family Style	13450	877	1649	3031	1096	2175	871	1022	767	1962
Upscale	2323	62	263	326	115	428	106	365	133	525
Crepe	93	6	20	3	3	19	1	7	6	28
Pancake/Waffle	2062	95	131	246	109	693	180	213	178	217
Cafeteria	2688	30	100	350	240	665	191	578	177	357
Ice Cream	21598	1173	3000	3897	1951	2995	1166	3233	1250	2933
Donut	8262	809	1044	1226	699	768	218	868	497	2133
Refreshment & Snacks	3244	121	315	522	262	459	172	631	181	581
Specialty Menus	4157	151	351	594	244	777	267	527	294	952
Natural/Health/Veg.	1139	58	163	126	66	190	51	93	85	307
Yogurt	1341	20	69	88	85	266	111	220	111	371
Potato	356	12	35	50	33	70	11	69	27	49
Pretzel	243	1	28	91	11	36	12	30	8	26
Chili/Soup	695	48	32	219	33	63	60	69	45	126
Biscuit/Bun	306	10	6	14	15	150	21	44	12	34
Other Specialty Menu	77	2	18	6	1	2	1	2	6	39
Miscellaneous	27499	1616	4917	2946	3468	3043	1331	3728	1775	4675
Truck Stops	1966	37	141	296	303	289	261	251	199	189
Cafes	13975	637	1005	1525	2566	1226	697	2425	1187	2707
Coffee Shops	3888	261	896	373	187	350	65	337	189	1230
Grills	2652	93	430	398	214	585	160	367	108	297
Diners	2763	332	1263	222	144	323	117	226	43	93
Luncheonettes	2255	256	1182	132	54	270	31	128	49	159
All Other Restaurants	92987	6322	17712	14939	6495	12816	3949	11725	4777	14252

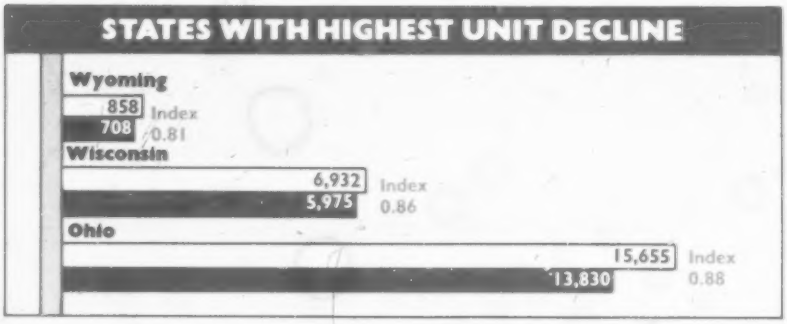
Source: RECOUNT 1987

← For more information on Haverpride circle number 275









than double the industry rate, despite decreasing from a phenomenal 13% growth the previous year. Italian restaurants also grew at 7.9% in 1987, exceeding their growth rate of 7% in 1986. Increases in all three categories were fueled largely by independents. However, chain-unit growth in Italian and Mexican outpaced the industry.

The sandwich category also outpaced the industry by growing 6.2% in 1987, by more than 2,800 units. Sandwich chains, which increased their 1986 7% growth rate to 8.5% in 1987, accounted for more than nine out of 10 new sandwich units. Independent sandwich restaurant expansion was greatly reduced from 6% in 1986 to 1% in 1987. Sub sandwich chains grew at a 29.5% growth rate in 1987 over 1986.

BIG GET BIGGER. The hamburger category in 1987 continued its second consecutive year of 6% growth. "Within this segment, it's a case of 'the big get bigger'," says Siegel. The top four burger chains, now accounting for 57% of the category, provided virtually all the growth, with an 11% increase in 1987. The number of units by smaller chains actually decreased 2%, and independents notched less than 2% growth, down from 5% the year prior.

The chicken category barely grew in 1987, notching a 1.3% performance. There was actually a 3% decline in the number of units for all chains except Kentucky Fried Chicken, Church's, and Popeyes. Those three chains expanded at 3%.

The family full-menu restaurant category grew 2.7% in 1987, after 1% growth the previous year, bringing it closer to matching the industry average than it has in several years. Within the family category, the chains, which account for 80% of all units, expanded at a rate of just 2% over 1986.

Unit counts can be categorized across regions to estimate the untapped potential of an area. Overall competition, as measured by the concentration of restaurants per 10,000 households, increased 1.8% to 39.5 between 1986 and 1987. Unit expansion between 1986 and 1987 was strongest in the West/North Central region, which grew 7.9%; and the East/South Central region, which grew 7.0%. The East/South Central region remains the least-penetrated region, with a concentration of 32.1 restaurants per 10,000 households.

There was virtually no expansion in the East/North Central and New England regions, with 0.1% and 0.3% growth, respectively. In these two regions, plus the Mountain region, population growth exceeded unit growth, thus creating a more positive potential for real sales gains.

On the other hand, in the West/North Central, East/South Central, Mid-Atlantic, and Pacific regions, restaurant expansion exceeded population growth, intensifying competition by increasing the number of restaurants available to consumers.

NARROW FOCUS. Lastly, unit counts provide an opportunity to focus on growth potential and competition within narrowly defined areas. For example, the states of Vermont, Washington, and Arkansas posted the highest indices of unit growth in 1987 compared to 1986, with 1.15 (15% growth), 1.10 (10% growth), and 1.09 (9%), respectively. At the other extreme, Wyoming came out last with a 0.81 index, indicating 19% decline in units.

So, an operator contemplating expansion into the Vallejo-Fairfield-Napa, CA, market, which has an index of 2.12, or greater than 100% growth in units in 1987 compared to 1986, faces different circumstances than if he chooses the Santa Rosa-Petaluma, CA, market, which posted an index of 0.64, indicating a 36% decline in units.

BAKERY/BAKE-OFF

In 1987, total bakery sales increased 9% over 1986, with retail sales alone increasing by $400 million.

BY JACQUE WHITE KOCHAK

Kansas City-based Cinnamon Sam's positions itself as a specialty bakery, offering cinnamon rolls, breads, and a variety of muffins.

The American consumer's love affair with fresh-baked goods continues to fuel the growth of upscale bakeries specializing in cinnamon rolls, cookies, muffins, and a variety of other baked goods.

In fact, *Bakery Production and Marketing* magazine estimates that in 1987, wholesale, retail, and in-store bakeries together posted a 9% increase over 1986, with retail bakery sales alone increasing by $400 million.

"I see a very important trend toward 'affordable treats,'" says Andrew Thorburn, president of Middlesex, NJ-based Restaurant Management Inc., which holds rights to franchise the Canadian bakery chain called Treats in the U.S.

But the competition's getting stiff out there. While cinnamon roll and cookie shops battle for prized locations in shopping malls, in-store supermarket bakeries are introducing upscale specialty products, and more and more restaurants are baking on-premise—including fast-food chains. And let's not forget the convenience stores, those quiet usurpers nibbling away at fast-food sales. They're now experimenting with selling baked-on-premise muffins and cookies.

Experts agree that a tremendous market exists for fresh, upscale baked goods. The question is whether too many operators are reaching for a piece of the pie.

SHAKEOUT. "I think specialty bakers are facing a difficult struggle, especially in regional malls," says Thomas Barbee, president of Memphis, TN-based Cinnamon Corner Ltd. "The demand seems to be real, the market is available, but you have to be very careful. Location is paramount. There's going to be a shakeout, and I think that it has already started."

Treats' president Thorburn agrees that competition for sites is brutal and is probably the biggest problem bakery concepts now face. "There are enough customers to go around. The question is whether there are enough sites in regional malls to go around. Most regional malls want only one or two bakery concepts, period," he says.

As a result, operators are evaluating the way they do business. Some are opting for sites outside of malls. "The company that figures out how to make a bakery work in a strip center will be the one to grow," says John Horseman, president of Cleveland-based Rolling Dough Gourmet Bakery.

Indeed, there are some very good

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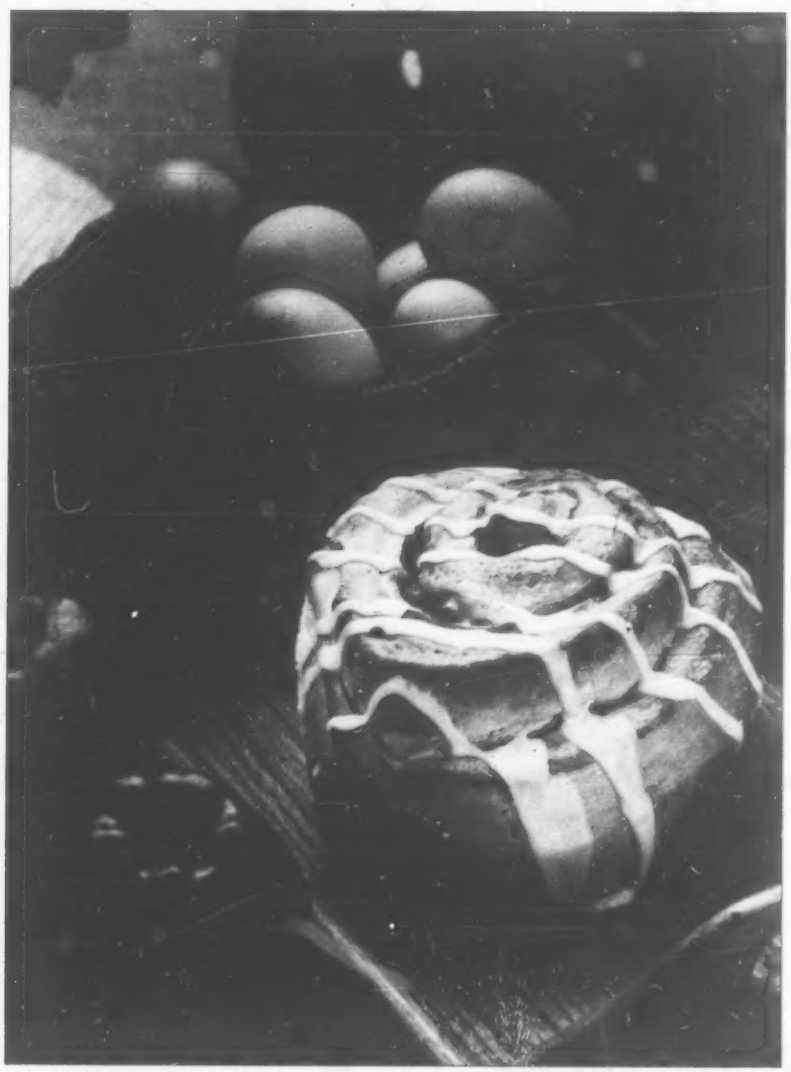
Jacque White Kochak is a contributing editor based in the Westchester County, NY, area.

MARKET SEGMENT REPORT

BAKERY/BAKE-OFF



Cindy's Cinnamon Rolls Inc. offers a limited menu of bread-based rolls. Pictured is its Apple Strudel Roll.

PHOTOGRAPH BY JOHN CLARKE PHOTOGRAPHY INC.

reasons why bakeries should be outside of malls. "We did one shopping mall unit as an experiment, but it was a failure," says Paul Bernstein, vice president of Chicago-based All My Muffins. "We were in a food court, and we couldn't sell anything before 10:30 or 11 a.m. We lost our morning business, and the costs associated with being in a mall were very high."

A number of operators are expanding their offerings to build a broader customer base in order to prosper outside of malls. Cinnamon rolls and cookies tend to be impulse items; more variety is needed to create a destination operation.

One operator is even abandoning the segment. This most negative voice of all comes from David Liederman, founder of New York City-based David's Cookies. "I believe that the small store with a single baked item is deader than dead," he says. "You can still make a lot of money if you've got a low rent, but it is hard to find that low rent." Liederman says he finds that rents everywhere, not just in New York City, have about tripled in the five to eight years since he got into the business. As a result, over the last two years David's Cookies has gradually changed the focus of its concept, going into the supermarket bake-off and branded goods business.

David's now provides dough to be baked-off for 700 locations, including supermarkets and convenience stores. In addition to cookies, David's provides brownies, croissants, and cakes.

"This is a much, much bigger business in terms of potential," says Liederman. "There are something like 50,000 grocery stores in the U.S. Nobody's even scratched the surface of the market. And people buy their food in grocery stores, not shopping malls."

In the supermarkets, cookies and other baked goods are usually sold under the name David's Cookies, but occasionally a private label is used.

Because of the company's shift away from being a cookie shop franchisor, the name was changed last year to David's Specialty Foods Inc. As the name indicates, the company's activities in the future may go way beyond baked goods; Liederman is even looking at shrimp right now. "I think there's a tremendous opportunity for upscale food products. That's the market that we are going after."

Nevertheless, says Liederman, David's still operates over 160 cookie stores around the country. "We're just being very careful about locations."

OPTIMISTIC. The chief operating officer of another cookie shop franchisor, however, is still very optimistic about the future of specialty retail bakeries. In fact, Erik Gordon of Atlanta-based Great American Chocolate Chip Cookie

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BAKERY/BAKE-OFF

David's Specialty Foods operates about 160 cookie units, but its focus is now on supplying bake-off dough to other outlets.

Many operators expanded menus to broaden their customer base and succeed outside of regional malls.

Co. says that 1987 was the company's best year ever, and that same-store sales were up substantially over the previous year for the company's 300 units, from Massachusetts to Guam. Systemwide sales for 1987 approached $50 million.

"First, some of our new products have really taken off," says Gordon. "Second, we attribute the improvement to the fact that we're older, smarter, and better at operations than we were before."

In the last year, Great American Chocolate Chip Cookie Co. has introduced an oatmeal-raisin bar, an Irish-cream cookie with chunks of chocolate, and a white-chocolate-chunk-macadamia-nut cookie. The stores also sell brownies, and new cookie flavors are always under development.

"Cookies are a good product because they are familiar, and they are an easy product to eat," says Gordon. "Cookies are more versatile than cinnamon rolls. You can eat cookies twice a day. How many times a day are you going to buy a cinnamon roll?"

Nevertheless, says Gordon, the specialty baked goods market is not an easy place to be. "There's a lot of consolidation going on," he says. "A lot of the smaller cookie people just can't make it. They can't afford the risks or the rents."

Great American Chocolate Chip Cookie Co. will continue to expand in the U.S. and is now embarking on an international expansion program. Stores are planned in Canada, Japan, Great Britain, either France or Holland, and perhaps Australia.

CINNAMON ROLLS. Cinnamon roll shops are among the hottest bakery concepts around today. The leader among cinnamon roll shops is clearly Kansas City-based T.J. Cinnamons, with 212 units nationwide. The company posted sales of $437 million in 1987 (compared to $9 million in 1986), and that figure is expected to nearly double to $66 million in 1988, says president Ken Hill.

T.J. Cinnamons continues to expand aggressively, with 120 additional units planned in 1988. The company is also considering small satellite kiosks that will be serviced by the larger bakeries.

Hill agrees, however, that finding good locations could slow expansion. "The second 200 locations will be a lot more difficult than the first 200," he says. "It's a tough business for somebody to get into today. I expect a shakeout and consolidation by 1989."

About 50% of T.J. Cinnamons are located in regional malls and 50% in downtown strip centers, and Hill cites pros and cons to both types of units. The key, he says, is high traffic. "We have a lot of very successful locations outside of regional malls," he says. "If our units are easy to get to and are visible, we can still sell an impulse item."

A plus to locations outside of malls, he notes, is the increase in morning traffic and carry-out sales.

T.J. Cinnamons' menu is very limited; cinnamon rolls are the major offering. From the beginning, however, Hill had intended to expand the menu to make T.J. Cinnamons a limited specialty bakery. An apple-filled "cinnastrudel" was recently introduced, and bread pudding is served at units in the South. A cinnamon-pecan coffee cake is served in some locations, as well as a chocolate-chip roll. A rum-raisin roll is being tested.

Part of the appeal of cinnamon rolls is the fact that they are served hot from the oven. Ultimately, says Hill,

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Competition for sites is brutal and is probably the biggest problem that bakery concepts now face.

T.J. Cinnamons will serve four hot-from-the-oven specialties, as well as a number of already baked specialties such as coffee cakes.

A strong competitor for T.J. Cinnamons is Seattle-based Cinnabon, a subsidiary of Restaurants Unlimited, a multi-concept dinner-house operator. The company now operates 45 company-owned units and 20 franchised units; an aggressive franchising program just got underway last year.

Most of the company-owned units are located on the West Coast, in Hawaii, and in the upper Midwest. Franchises have been sold in Canada, eastern Pennsylvania, southern New Jersey, Baltimore, the Washington, DC/Virginia area, and Dallas/Ft. Worth, TX. Expansion plans call for 25 additional company-owned units to be opened this year as well as 30 franchised units.

Cinnabon continues to locate almost exclusively in regional shopping malls, with an attractive "high tech/European" look marked by lots of tile, marble, stainless steel, and glass. Each unit has seating, so customers can stop for a roll and fresh-ground coffee.

LIMITED MENU. Cinnabon has avoided expanding its menu. Cinnabon buns, weighing in at about eight oz. and topped with cream cheese frosting, are made from scratch in the units from a prepared cinnamon-roll mix. Considering that Cinnabon serves only one product, sales are impressive; the average unit grosses about $350,000 a year.

"Quite a few people out there are broadening their menus, but we want to maintain our integrity," says Dennis Waldron, executive vice president of Restaurant Unlimited's Cinnabon Division. "We don't want to be a full-blown bakery. Quite honestly, we don't know if cinnamon rolls are a fad. But, we're betting that they're not."

The model for several cinnamon roll concepts is Idaho Falls, ID-based Mrs. Powell's Inc., operator of Mrs. Pow-

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BAKERY/BAKE-OFF

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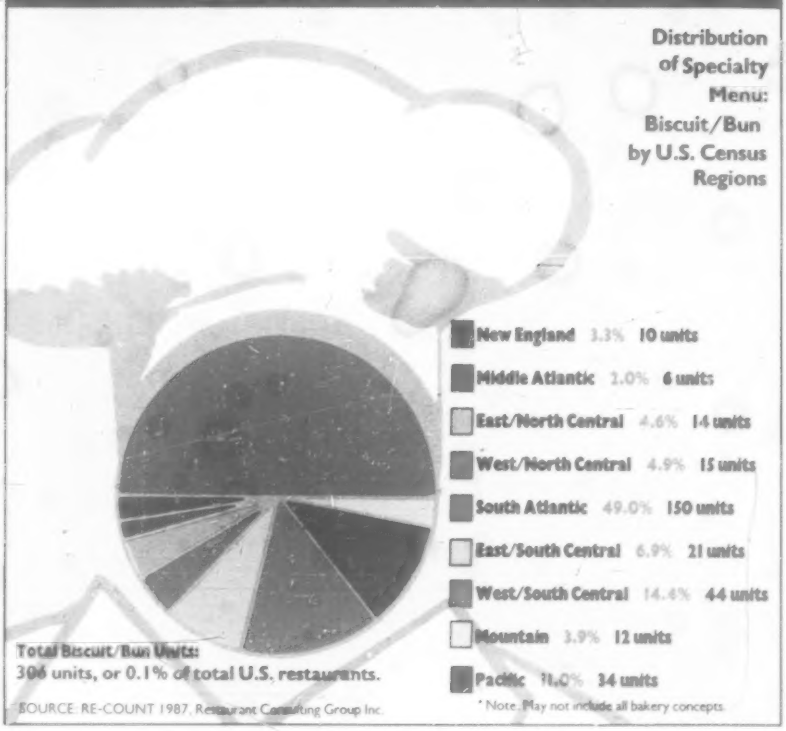
Distribution of Specialty Menu: Biscuit/Bun by U.S. Census Regions
New England 3.3% 10 units
Middle Atlantic 2.0% 6 units
East/North Central 4.6% 14 units
West/North Central 4.9% 15 units
South Atlantic 49.0% 150 units
East/South Central 6.9% 21 units
West/South Central 14.4% 44 units
Mountain 3.9% 12 units
Pacific 11.0% 34 units
Total Biscuit/Bun Units:
306 units, or 0.1% of total U.S. restaurants.
SOURCE: RE-COUNT 1987, Restaurant Consulting Group Inc.
* Note: May not include all bakery concepts.

CHART BY SHARI FANG

Competition, from restaurants baking on-premise and supermarket and c-store bakeries, has grown fierce.

ell's Delicious Cinnamon Rolls in 15 states. Some 38 units, all but three franchised, are located primarily in regional malls.

This year, Mrs. Powell's is beginning to expand in strip centers. President Dick Powell says that he agrees that cinnamon rolls are mainly an impulse item, but believes that the concept can succeed outside of malls because of Mrs. Powell's name recognition. "You have to advertise more, of course," he says. "While rent and other overhead costs are considerably less in a strip-center location, advertising and promotion costs are higher."

BRAND RECOGNITION. Mrs. Powell's has expanded its menu somewhat, but Powell insists that the secret of the concept's success is its simplicity. The basic bread dough can be used for a number of offerings, including a new Cinn-a-yum twist that is smaller than the regular cinnamon roll and doesn't have raisins. A slightly different dough is used for a moist 2-lb. country loaf and a country dinner roll.

During the holiday season, Mrs. Powell's introduced holiday breads in the shapes of a candy cane and a wreath, which met with "overwhelming acceptance," says Powell. In fact, one unit operated around the clock turning out the breads. Also new is a "gift bear" made out of cinnamon roll dough and decorated for the appropriate occasion.

Powell anticipates that 75 new units will open in 1988, with concentrations in the Eastern U.S. and California. The company will be sharing some locations in New England in a joint venture with Portland, OR-based All American Yogurt Co. "We feel that the concepts are complementary, and we will be able to use retail space that we couldn't have used otherwise because it is too big," says Powell.

Another cinnamon roll baker to attain and keep popularity is Fallbrook, CA-based Cindy's Cinnamon Rolls Inc., modeled after Mrs. Powell's and serving an enormous bread-based roll. Cindy's now operates 42 units all over the U.S., all stores franchised; even the original company-owned units have been sold. Average unit volume is about $280,000, with some stores grossing as high as $400,000. Expansion plans call for 25 more units this year, says Tom Harris, president.

All Cindy's are located in major regional shopping malls. "We are very selective about the type of location we open, and those locations are getting scarce," says Harris. "Right now we're trying to analyze whether we will go into strip centers. If we do, we will broaden our menu. We're watching T.J. Cinnamons, because so many are outside of malls."

Right now, Cindy's menu is extremely limited, offering only the original cinnamon roll, an apple strudel roll, and a caramel nut roll.

Harris is considering introducing a program that features a roll of the month. "What has made cinnamon rolls so successful is that they are served hot out of the oven," says Harris. "That is why we have to be very careful and not introduce a lot of new items."

Unlike some of the other bakery concepts, Cindy's cinnamon rolls are made from scratch on-premise every day.

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BAKERY/BAKE-OFF

Experts agree that a tremendous market exists; the question is whether too many operators want a piece of the pie.

"We haven't had any trouble with consistency," Harris says, "because we monitor the process and get around to the stores frequently."

MORE TO THE MENU. Kansas City-based Cinnamon Sam's was, from the beginning, positioned as a limited-line bakery rather than as just a cinnamon roll shop. The company now operates more than 40 units in 25 states, all but four franchised, and is opening between four and six units a month. Franchise sales are continuing very aggressively in the U.S., and agreements are being put together that could open up Canada and England.

Cinnamon Sam's president Gerald Diddle says that the company is going into a variety of locations, including malls and strip centers. "We are a gourmet specialty bakery serving breads and muffins and we are testing additional things," says Diddle. "That has freed us from malls, because that diversity makes us more than just an impulse buy."

In addition to cinnamon rolls, Cinnamon Sam's offers apple streusel muffins, banana muffins, blueberry muffins, and chocolate/chocolate chip muffins, as well as a muffin-of-the-month program. The muffin of the month is often tied to a special event, and is offered for 30 days.

The company also offers a raisin cluster bun, similar to a hot cross bun, and two white bread loaves in addition to cinnamon-raisin bread.

Another company that has evolved into a gourmet specialty bakery from its cinnamon roll roots is Memphis, TN-based Cinnamon Corner Ltd., with nine units open and another under construction. Units are open in Atlanta; New Orleans; Miami; St. Louis; Davenport, IA; Germantown, TN; Columbia, MO; Jacksonville, FL; and Butler, PA, right outside Pittsburgh. Eight are company-owned, one is franchised.

The company has just become active in franchising, and president Barbee says he anticipates that another six to seven franchised units and another two or three company stores will open this year. "We have no intention of growing at breakneck speed, and we want to be careful with franchising," says Barbee.

Like so many specialty bakers, Cinnamon Corner is reevaluating its sites. One store is located in a strip center, and Barbee says that in the future most will be located in strip centers. The Butler, PA, store is a small free-standing building.

As the concept evolved, Cinnamon Corner added cookies, brownies, bagels, croissants, and coffee cakes, and this year, is introducing breads. The company is testing a bagel sandwich filled with tuna or chicken salad to boost lunchtime business, as well as a ham-and-cheese-filled croissant.

"We are no longer a completely impulse-oriented retailer," says Barbee. "A regional mall is a good place to be for impulse buys, but we are becoming a destination point for an estimated 60% of our customers."

Barbee points out that Cinnamon Corner's average check in a mall is $2.25, compared to $3.50 for a shop outside a mall (average unit volume is about $240,000). "I really believe that in a regional mall, people don't like to carry things like baked goods around."

Baking at Cinnamon Corners is kept simple, although most of the dough is prepared on-premise, except for croissant dough, which is frozen. Proprietary dough mixes are packaged, and recipes are easy to follow. Franchisees train for about two weeks in Memphis at the company store. Cinnamon Corner representatives work at a new unit through its opening.

Fairly new to the bakery scene is Cleveland-based Rolling Dough Gourmet Bakery, with four units open. Two are located in Cleveland, one in Canton, OH, and one in Beaumont, TX. An area

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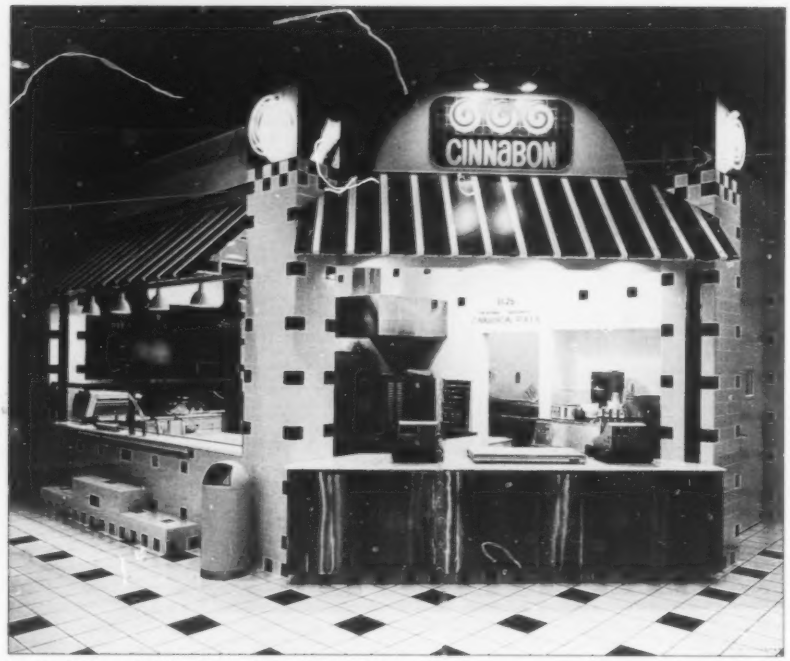
MARKET SEGMENT REPORT

BAKERY/BAKE-OFF



Seattle-based Cinnabon locates its high-tech/European-styled units almost exclusively in regional shopping malls.

The delicious aroma of fresh-baked goods has an almost irresistible merchandising appeal to passing patrons.

franchise has just been sold to a St. Louis Dairy Queen franchisee.

Although 40% of sales derive from oversized cinnamon rolls and sticky buns, Rolling Dough also offers a line of 20 muffins, including carrot cake muffins and German chocolate cake muffins, as well as regular and filled croissants. Also offered are specialty breads such as 10-grain, sourdough, and French. Baked goods are proofed and baked in units from raw, frozen dough, says president Horseman.

For now, most units are in malls, he adds, but that will change in the future. Plans are underway to open a freestanding unit on a mall in front of a strip center. The bakery will share the space with another of Horseman's concepts, a '50s diner called Eat at Joe's. Three Eat at Joe's are open, one in Cleveland, one in Phoenix, and one in Beaumont, TX. Between the two concepts, Horseman says, he will open a total of 12 company-owned units and three franchised units in 1988.

Existing Rolling Dough Gourmet Bakeries annually gross between $250,000 and $600,000, according to Horseman, and average $350,000.

Although units derive a good portion of sales from cinnamon rolls, Rolling Dough does not want to be associated with only one product, says Horseman. "When you're identified with one product, it is very difficult to bring another product in, although the bakeries with staying power and capital can do it. But I think that to a certain extent cinnamon rolls are a fad, and we want to be prepared for the future."

Lombard, IL-based Cookie Factory of America Inc. is also moving toward becoming a specialty baker rather than a cookie shop. In the last several years, the company has added six varieties of gourmet muffins, croissants, fruit turnovers, cinnamon and pecan rolls, and danish, in addition to 15 varieties of cookies. Now, a significant portion of sales comes from products other than cookies, according to Michael Simpson, president.

SAVORY ITEMS. Recently renamed Cookie Factory Bakeries, units also serve light meals in the form of savory croissants, sandwiches, and croissant toppers.

The newest addition to the menu is Candy Store brownies, selling at $6 a pound. Flavors are turtle, rocky road, peanut butter, double chocolate, and chocolate mint.

Some 55 units are scattered from Colorado to Virginia and from Florida to Michigan, with most clustered in the upper Midwestern states of Illinois and Indiana. Most are located in shopping malls; five are company-owned. Simpson says the company's expansion plans are "pretty aggressive," but won't elaborate.

Simpson also won't divulge sales figures, but says that Cookie Factory same-store sales are up significantly from the same time a year ago, an increase that he attributes to new products and aggressive marketing.

MUFFINS. Chicago-based All My Muffins Licensing Inc. is one of the few companies in the bakery segment that specializes in muffins. The company now has units in Beverly Hills, Chicago, and Ann Arbor, as well as in Bloomingdale's department store in Manhattan. A second Chicago unit is under construction, plus one in Detroit and one in Kalamazoo. The company plans to add three to five stores in 1988. Two

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BAKERY/BAKE-OFF REPORT

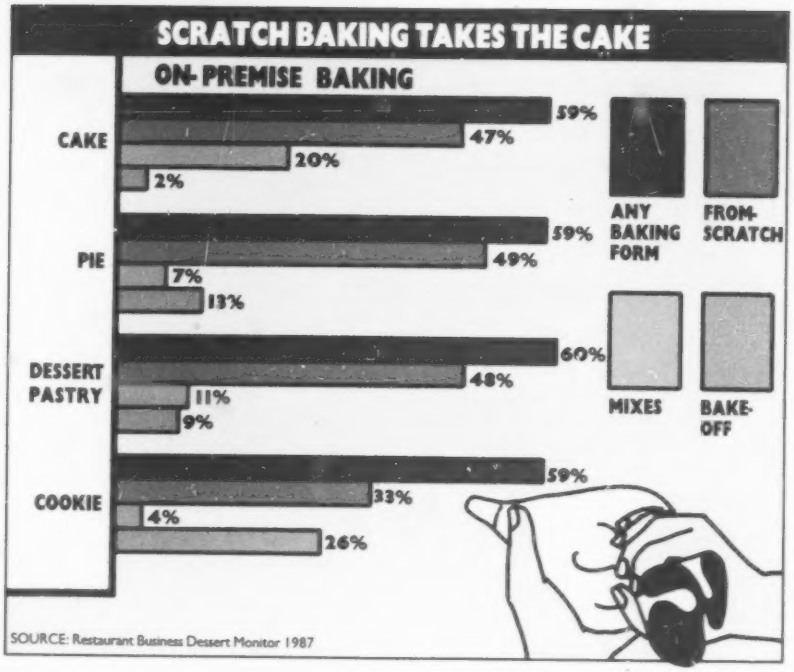

CHART BY SHARI FANG

Freshness is key to bakery concepts; mixes and dough may be produced at commissaries, but in-house baking is what sells.

units are company-owned.

All My Muffins' types of locations vary. The Chicago unit is in a busy lobby of an office building. The Ann Arbor unit shares a building with a Little Caesars Pizza and a McDonald's; all the concepts have separate entrances, but share seating in an atrium. The Beverly Hills unit is freestanding, while the new Detroit unit is located in a strip center, and the new Chicago unit is adjacent to a commuter train station.

All My Muffins also delivers within a two-mile radius. The service is popular with businesses, which often place a standing order. Minimum order is a dozen muffins. Bernstein says that delivery business has increased about 8% in the last year. All stores have limited seating. Vice president Paul Bernstein declines to give sales figures, but says that the average check is $2.

All My Muffins offers 12 to 15 different kinds of muffins every day from a selection of some 250 flavors, with the menu changing weekly.

Units also offer four filled croissants: sausage and egg; ham, cheese, and egg; turkey with Monterey Jack; and ham with Swiss cheese. A broccoli and cheddar cheese croissant is being added. Six different soups rotate through the menu, with two available every day.

All My Muffins proves how versatile a muffin can be; the second most popular selection is a cinnamon coffee cake muffin, a competitor of the ubiquitous cinnamon roll. And then there's the muffie—a muffin cookie. The company is also experimenting with a frozen dessert without cholesterol or fat, called Angel Freeze.

Fairly new to the U.S. market, but a potent force in Canada, is a company called Treats, which specializes in muffins but also offers a variety of other baked products. Middlesex, NJ-based Restaurant Management Inc. (RMI), a food franchise management company, in December purchased the Treats U.S.A. license and associated assets for $2.3 million, and is now the U.S. franchisor of the concept.

Before the acquisition, RMI was the largest of 10 Treats regional franchisees in the U.S., with six stores opened within the past six months. Some 20 units are now operating in the U.S.

RMI is also a franchisee of Arby's and Schlotzsky's, with regional franchise rights with Schlotzsky's. RMI's business plan calls for the establishment of up to 500 additional Treats stores within the next five years.

Treats specializes in muffins, with the same six or seven popular varieties available every day in addition to between three and five special flavors. Some 60 varieties of muffins are offered in all, including piña colada, pineapple coconut, almond coffee cake, apple rhubarb, chocolate pudding, lemon cheesecake, cherries jubilee, peanut butter chocolate chip, and peanut butter and jelly. A cinnamon muffin is reminiscent of a cinnamon roll.

The Treats menu also includes brownies, cookies, and the Crumble, an oversized muffin with a crumb-cake topping and fruit fillings. Boosting midday sales are luncheon puffs, made from a biscuit-like dough that is less heavy than muffin dough, which are topped with various ingredients. Everything is made fresh on-premise from proprietary mixes, says RMI president Andrew Thorburn.

RMI became interested in the Treats concept for several reasons, says Thorburn. "We wanted a flexible concept

that could evolve as the consumer's tastes evolve," he says. "Even the Treats name is flexible. When you start as Dunkin' Donuts and decide to sell croissants, you have a battle on your hands. We're positioning ourselves as a concept selling fresh, home-baked goods."

Most of Treats' locations in the U.S. are in regional malls and do not have seating. The typical customer stops by on impulse, says Thorburn, and the average check is about $1.50. As Treats expands, RMI will also seek out locations in large, mixed-use projects in major downtown areas, as well as downtown storefronts. RMI will avoid strip centers and freestanding buildings, because Thorburn is convinced that the concept requires heavy foot traffic to thrive.

Thorburn says that he prefers not to publicize unit volumes, but says that the stores are highly profitable and that the Canadian company has never had to close a Treats store yet.

C-STORES. Convenience stores, in their mounting assault against fast-food operators, are sensing profits in the fresh bakery segment. 7-Eleven is testing a cookie bake-off program using cookie dough provided by David's Specialty Foods.

Rosemont, IL-based Convenient Food Mart Inc., with 1,300 stores systemwide, is testing a World's Greatest Muffin bake-off program in two test markets, Cleveland and Chicago. Six varieties of muffins (apple cinnamon, blueberry, carrot cake, banana nut, double chocolate chip, and bran-zucchini-raisin) are baked fresh in the store two to three times a day. Muffins are baked from a frozen batter developed by Convenient Food Mart management through 500 man-hours of testing. Store personnel simply scoop and bake the muffins.

Before press time, the company had been tracking sales for about 15 weeks in Chicago, and found muffin sales to be as high as 6% of total sales and averaging 3% to 3.5%, which is considered remarkable for one product in a convenience store product mix. The muffins sell for about $1.29, and are promoted by point-of-sale materials. They cross-merchandise very well with coffee and other beverages, points out Ken Delisi, marketing associate.

FULL-LINE BAKERIES. Only a few full-line bakeries have successfully expanded beyond one, two, or three units because of the baking skill required. The largest full-line bakery chain is Vienna, VA-based Vie de France, the subsidiary of a French company. Vie de France has operated in this country for 15 years, and after some financial declines, has begun growing again.

The company is divided into two corporations. A wholesale bakery operation that supplies frozen croissant and French bread dough to restaurants and bakeries around the country is headed by Sara Lee veteran Richard Sharoff. The Vie de France Restaurant

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"Pepperidge Farm fancy dessert cookies make mighty sweet customers."

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Idaho Falls, ID-based Mrs. Powell's Delicious Cinnamon Rolls has 38 units, primarily in regional malls, and plans to add 75 more in 1988.

Some bakery operators are participating in joint ventures with compatible concepts to help reduce rents.

and Retail Bakery Corp., which also includes Fast & Fresh, is headed by Arby's veteran Bob Blessing. The restaurant corporation now operates 57 restaurants around the country. That number was boosted by the acquisition of 27 Michel's Baguette Restaurants last year from the Cookie Factory, with most now converted to Vie de France bakery/cafes.

The Vie de France restaurant portion started out operating retail bakeries, but today there are only three bakeries without restaurants. Vie de France Restaurant Corp. will never open another bakery-only operation, says Blessing.

Instead, the company is concentrating on its new-generation Fast & Fresh units, an evolution from an earlier fast-food Fast & Fresh concept. The new upscale Fast & Fresh integrates quality baked goods with a broader menu than the original concept.

The most popular item is rotisserie chicken, which is prepared in public view. Also available are hamburgers, as well as french bread pizzas with toppings such as roasted eggplant and onion with feta, mozzarella, and parmesan cheeses; spinach, black olive, feta, mozzarella, and parmesan cheeses; and bacon with cheddar, mozzarella, and parmesan cheeses.

The new-generation Fast & Fresh also offers a breakfast menu of croissants with several toppings, as well as a scrambled egg platter, a french toast platter, and a belgian waffle platter.

Food is served cafeteria-style, through an express line that is totally self-service and created for quick take-out, and a made-to-order line designed for indoor/outdoor dining and offering hot foods in addition to salads and sandwiches.

Decor is contemporary European, with authentic European tables, chairs, and lamps. New mauve and celadon colors are used throughout and are reflected in uniforms. Classic French design is reflected in a myriad of mirrors.

According to Blessing, about 80% of Vie de France's expansion in the future will be from the new Fast & Fresh concept, and about 20% from the full-service Vie de France units. About 12 company-owned units will open in the next year, and a new franchising program should produce about 12 franchised units, says Blessing.

Full-service Vie de France restaurants are similar to Fast & Fresh units in appearance, but offer an expanded menu that includes more sandwiches, salads, and soups. A breakfast menu is available, offering a variety of omelets with unusual fillings.

Blessing says that Vie de France restaurants have a big advantage over other bakery/cafes when it comes to expansion, because the wholesale bakery corporation already has 20 bakery centers around the country, which supply frozen dough to restaurants.

"Other companies must remain regional because they are restricted in their ability to ship product around the country," says Blessing. "Transportation costs are a liability. Unless you use frozen dough, you must have a skilled French baker at every location."

Although the restaurant company has moved firmly out of the bakery-only segment in order to increase volume, baked goods are still a substantial portion of sales. "The whole company averages 35% to 40% of sales out of the bakery," says Blessing. "We are definitely in the bakery business."

Blessing expects new stores to post sales of from $850,000 to $1.1 million. According to the company's annual report, 1987 was a year of rebuilding for parent company Vie de France Corp.,

and management believes that substantial investments in the bakery and restaurant subsidiaries will pay off in 1988. Sales for the corporation as a whole increased by 10% during fiscal 1987, to a record $68.4 million, although there was a significant decline in net income because of restructuring costs, expenses incurred in recruiting new management.

ITALIAN BAKER. San Francisco-based Il Fornaio, which means "the baker" in Italian, is another bakery company that is moving toward operating full-service restaurants.

The company is the American representative of a chain of 1,500 bakeries in Europe, started by an Italian family interested in reviving the dying art of breadmaking. The eight units, all in California, serve a variety of breads made from old Italian recipes, as well as cakes, cookies, and candies.

All the products are made by hand by skilled bakers in three commissaries, then are baked and shipped out to units. "This is a very, very difficult market in which to make a lot of money when all the product is made by hand," says a spokesperson. "The products are very labor intensive, and there is not a big profit margin."

That is part of the reason that the company is moving toward operating combination bakery/cafe units. Larry Mindel, formerly president of innovative Spectrum Foods, was hired earlier this year as chairman and chief executive.

Il Fornaio recently opened Il Fornaio Cucina Italiana in Corte Madera, CA, which serves such specialties as spit-roasted meats, chicken, and fresh-baked fish, as well as a variety of baked goods. The 102-seat restaurant, located in an upscale strip center, offers counter seats where customers can watch food being cooked by rotisserie, in an oak-burning oven, and on a mesquite grill. Alfresco dining is available on an adjacent 54-seat piazza.

The restaurant also serves breakfast and lunch. Mindel says that he plans to open additional Cucina Italiana units in the future, but no more than two a year.

Another full-service bakery is Park City, UT-based La Petite Boulangerie, a subsidiary of MF Holdings, also the parent of Mrs. Fields Cookies. MF Holdings bought the company last year from PepsiCo.

Randy Fields, president of MF Holdings, is reluctant to give very much information about either concept, except to say that the 125 La Petite Boulangeries (all company-owned) and the 560 Mrs. Fields in 30 states are doing business "pretty much as usual." La Petite Boulangeries are all located in six Western states and are supplied by a central commissary.

Expansion for Mrs. Fields has been quite aggressive, with 200 units opened last year. Expansion of La Petite Boulangerie will be much slower, says Fields.

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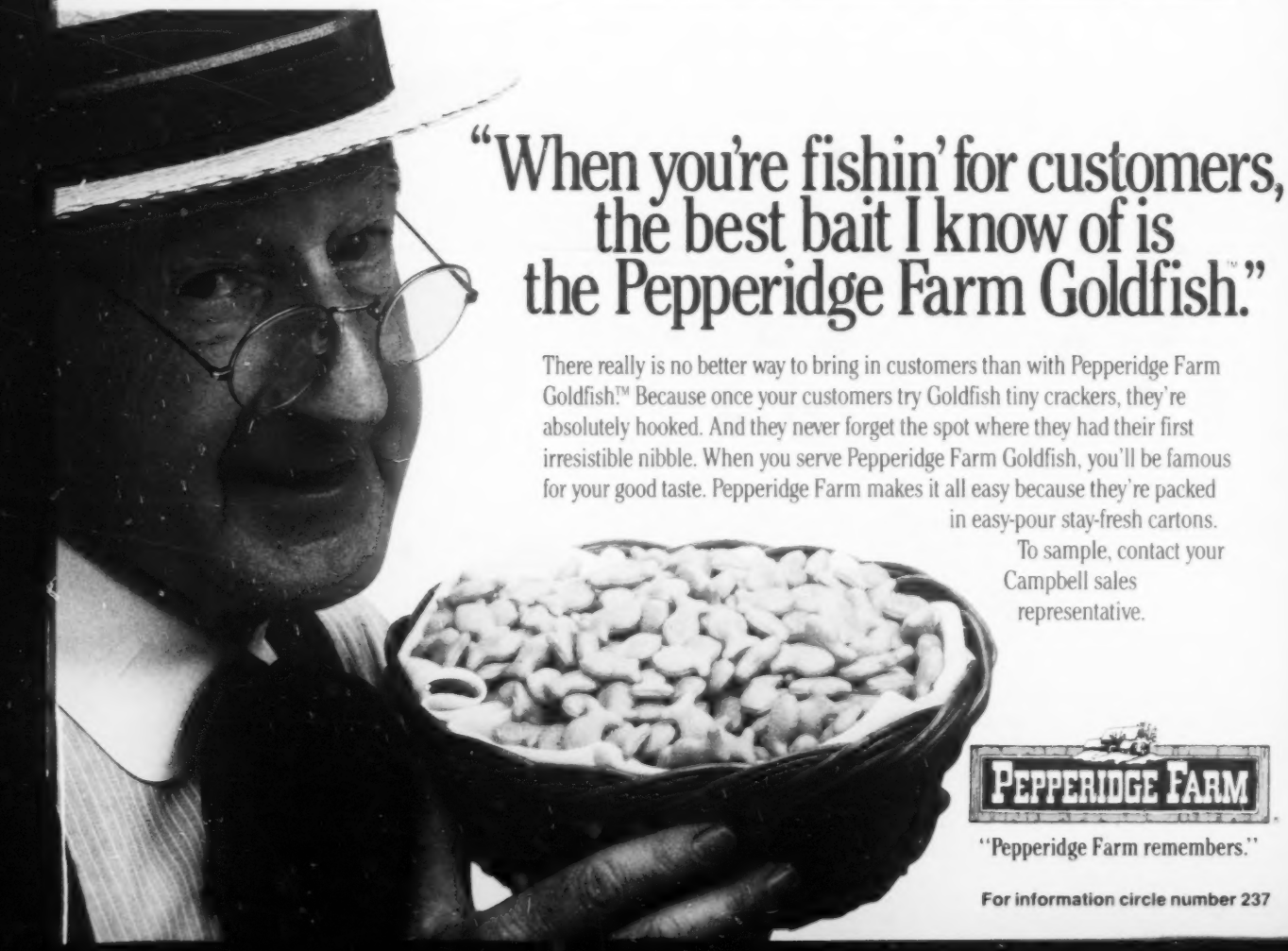

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For information circle number 237

MARKET SEGMENT REPORT

BAKERY/BAKE-OFF

Treats specializes in muffins, with over 60 varieties, but also offers brownies, cookies, and luncheon puffs—biscuits served with savory toppings.

Only a few full-line bakeries have successfully expanded because of the baking skills required.

Fields would not comment on MF Holdings sales, but analysts estimate 1986 sales at $170 million.

LOCAL LEADER. A strong local baker is New York City-based Zaro's Bake Shop Inc., with 16 bakeries in the New York City metropolitan market. In addition to a large bakery section, most of the units offer deli sections, frozen yogurt, pizza, and hot dogs.

The enormous Zaro's unit in Grand Central Station is a Manhattan institution, and now Zaro's has opened units in Penn Station, the city's other major train station, as well as in the Port Authority, where incoming buses stop, and South Street Seaport, a seaside development. As a result, Zaro's has adopted the promotional theme "We've got you covered," referring to the company's domination of transportation terminals.

Zaro's is an example of an old-time bakery that has adapted successfully to change. Opened some 50 years ago in the Bronx, Zaro's eventually expanded to 20 neighborhood bakeries. One by one those stores closed; then a second wave of expansion began, with franchising initiated nearly two years ago. Now, six units are franchised.

Zaro's is truly a full-line bakery, serving a complete line of baked products from bagels to birthday cakes and muffins to brownies.

For customers who have to eat on the run, the bakeries offer filled croissants, quiches, and 20 kinds of spreads to go on bagels and rolls.

While so many old-time bakeries have disappeared, Zaro's is flourishing. "We don't give out volumes, and there's no average because units range in size from 1,000 sq. ft. to 4,000 sq. ft.," says Stuart Zaro, the company's executive vice president. "But I'll say that there's no place in the world that does better than we do foot for foot. We get people in and out fast."

A large part of Zaro's success is due to being very picky about locations. The company seeks out Manhattan locations with very high-density traffic, surrounded by office buildings.

Because of the locations, sales are spread out over the day. The morning is busiest, but check averages then are lower; in the evening, when customers buy baked goods to take home, check averages are higher. This insistence on prime locations has kept Zaro's from expanding too fast.

The fact that skilled bakers are a dying breed has led to the demise of many full-service bakers. Like Vie de France, Zaro's has solved that problem by operating a 40,000-sq.-ft. central plant in the Bronx where cheesecakes, birthday cakes, layer cakes, and breads are made and delivered to New York City stores twice a day in finished form. Bagels, croissants, and such delicacies as *rugellach* (bite-sized pastries made of cream cheese-based dough and filled with chocolate, blueberry, cinnamon, or raspberry fillings) are made at the plant, refrigerated, and sent out raw to the stores, where they are baked on-premise all day long.

Because skilled bakers are so difficult to find, Zaro's trains its own workers in an apprenticeship program.

Cinnamon rolls may or may not be a fad, but the demand for high-quality baked goods should remain strong. Intense competition points towards a shakeout, but the strong players will survive and prosper. ■

For more information on Wisconsin Milk Marketing circle number 266 →